1959

Canadian HUSKY Oil Ltd.

Annual Report

The *1960 Annual Meeting* and a *Special Meeting* of shareholders are scheduled to be held at the Company's general office in Calgary, Alberta. The management will solicit proxies for such meetings at a later date. We sincerely hope that all shareholders who are able to attend the meetings will do so.

Canadian HUSKY Oil Ltd.

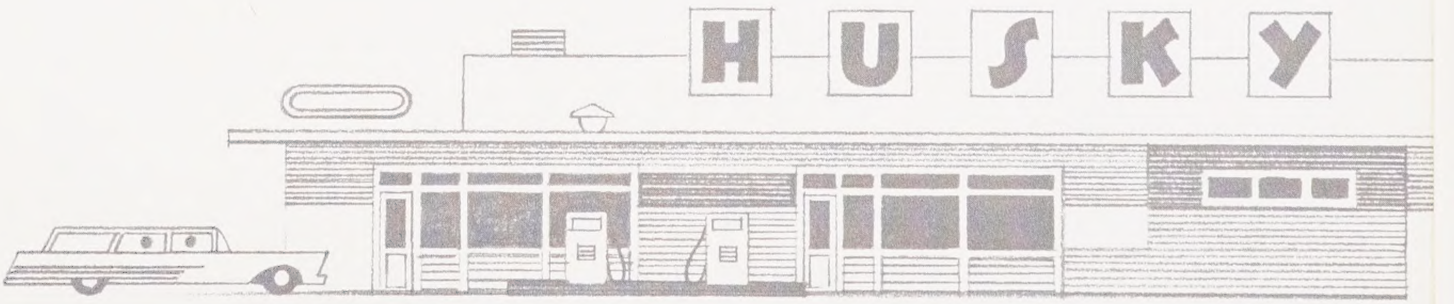
GENERAL OFFICES: 815 Sixth Street S.W., Calgary, Alberta.

REFINERIES: Lloydminster, Alberta; Moose Jaw, Saskatchewan; Fort William, Ontario.

REGIONAL OFFICES: Calgary, Alberta; Fort William, Ontario.

DIVISIONAL MARKETING OFFICES: Edmonton, Alberta; Regina, Saskatchewan; Winnipeg, Manitoba.

Annual Report 1959



A Comparison 1959-1958

	1959	1958
FINANCIAL		
Gross operating income	$15,355,971	$16,239,032
Net operating profit before depreciation and depletion .	1,521,833	1,531,027
Net working capital	8,376,161	7,025,471
Cash and marketable securities	3,837,651	3,542,273
GROWTH EXPENDITURES		
Exploration	$ 671,652	$ 900,102
Development expense on Company owned wells	381,942	1,007,583
Refinery improvements	179,120	366,862
Marketing facilities	383,286	914,106
OPERATIONS		
Crude oil produced (barrels)	820,529	806,298
Crude oil processed (barrels)	3,433,842	3,461,712
Natural gas produced (MCF)	1,159,502	991,305

To the shareholders

During the past year Canadian Husky received an extraordinary amount of publicity relative to the importation of one tanker load of Venezuelan crude oil for use at our Fort William, Ontario refinery. This publicity was entirely out of proportion to the magnitude of the transaction. However, it reflects a deep concern, shared by ourselves, over the quantities of imported crude oil and products actually entering the Canadian market. Under the circumstances our shareholders deserve an explanation and statement of policy.

Imported crude oil and refined products continued to supply over half of Canada's market demand in 1959. These imports are utilized primarily in the regions accessible from the St. Lawrence Seaway and the Great Lakes, and consequently, are directly competitive with products from Canadian Husky's refinery in Fort William.

As a result, the world-wide surplus of crude oil and low cost water transportation have had a direct impact upon the economics of our Lakehead operation. When it became evident that Western Canadian crude oil would not receive preferred treatment in the Eastern Canadian markets, we imported our first cargo of foreign crude oil.

Our preference is to use Canadian crude oil and we believe that a better utilization of Canada's own mineral resources would not only stimulate the Canadian oil industry but the general economy of Canada as well. However, as refiners, our primary responsibility to our shareholders is to purchase our crude oil at as low a price as our competitors.

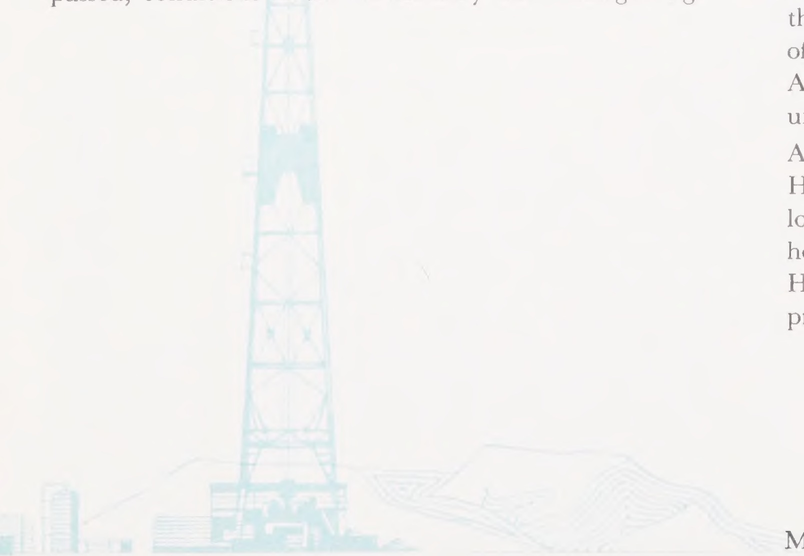
Industry and public concern over the importation of a small quantity of crude oil also reflects an awareness of trends in the industry. In the two or three years just passed, conditions in the oil industry have changed significantly, not only in Canada and the United States, but throughout the world. Excess crude oil producing capacity has made importation of oil into Canada and the United States a serious threat to the economics of the domestic industry in both countries, although some relief has been provided by the mandatory import controls recently imposed in the United States. Crude oil and refined product prices have been under pressure despite the increased costs of finding new reserves.

Because of these conditions and because of the historical relationship which exists between Canadian Husky and Husky Oil Company, members of the Boards of Directors of both deemed it worthwhile to consider re-uniting these two companies on a fair and equitable basis in order that both could accomplish their mutual objectives of attaining growth and greater strength and in order that both could better meet the challenges of present industry conditions with their resources combined.

You will be receiving under separate cover, notice of a Special Meeting of Shareholders at which a proposal that the Company make an offer to exchange its common shares for the outstanding common stock of Husky Oil Company will be considered. The proxy statement which you will also receive sets forth the basis and the reasons why your Board of Directors believes this offer is advantageous to the shareholders of Canadian Husky.

It is with regret that we report the death of Mr. James W. Millar in March, 1960. Mr. Millar was formerly president of Liberal Petroleums Ltd. and had been a director of Canadian Husky for the past two years. He was one of Western Canada's pioneers in construction of highways, railways and airfields and operated a major lumber enterprise in Alberta. Millar construction projects across the west have had a considerable impact on the history of progress in this region. Mr. K. M. Johnston of Calgary, Alberta, will fill the vacancy on the Board of Directors until Mr. Millar's successor is elected by the shareholders.

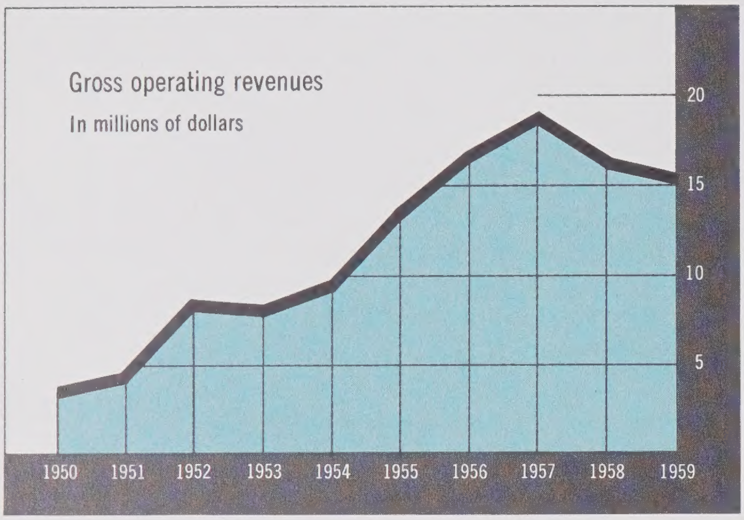
A most important factor contributing to Canadian Husky's achievements and aspirations is the continued loyal support of our employees, many of whom are shareholders, and the independent businessmen who are our Husky dealers. The directors wish to express sincere appreciation to them and to our shareholders and customers.

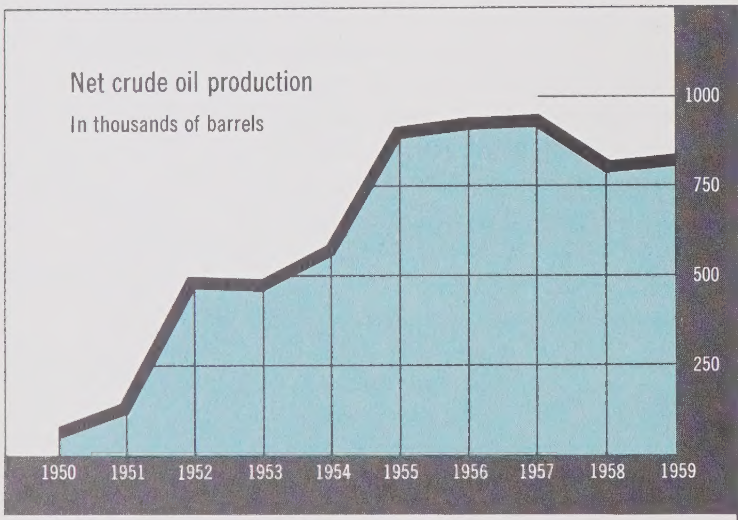


Glenn E. Nielson

March 31, 1960. President.

1959 in review





Financial

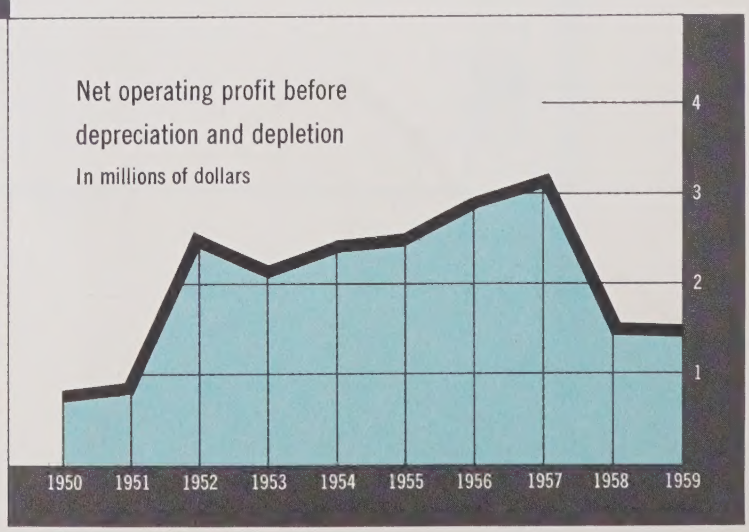
The consolidated financial statements of Canadian Husky and subsidiaries show net operating profit of $1,522,000 for 1959, before depreciation and depletion, compared with $1,531,000 for 1958. Gross operating revenues of $15,356,000 were 5% less than the total for 1958. Non-operating revenues were $223,000 for 1959 and $405,000 for 1958 including gain from the sale of drilling equipment in 1958.

Both gross operating income and net operating profit declined in 1959 as a result of discontinuing contract drilling operations. After adjusting for this change, 1959 net operating profits were 9.5% greater than for comparable operations in 1958.

1959 deductions from earnings included $695,000 for exploration, $625,000 for interest and $1,648,000 for depreciation and depletion. After deducting these charges and giving effect to a tax adjustment, the Company ended the year with a net loss of $1,211,000 compared with a net loss of $1,768,000 for last year.

Proceeds to the Company from refinery and marketing sales were $14,124,000 for 1959, a 2.7% reduction from 1958. Although sales through Husky service stations and bulk plants increased 10%, these gains were more than offset by a decrease in deliveries of asphalt. Extremely adverse weather conditions throughout our market area curtailed the use of asphalt in highway construction.

Crude oil production showed a small increase over 1958. Natural gas sales also increased but were only a fraction



of the potential sales from our interests in the Savanna Creek and Dick Lake fields when they are connected to markets.

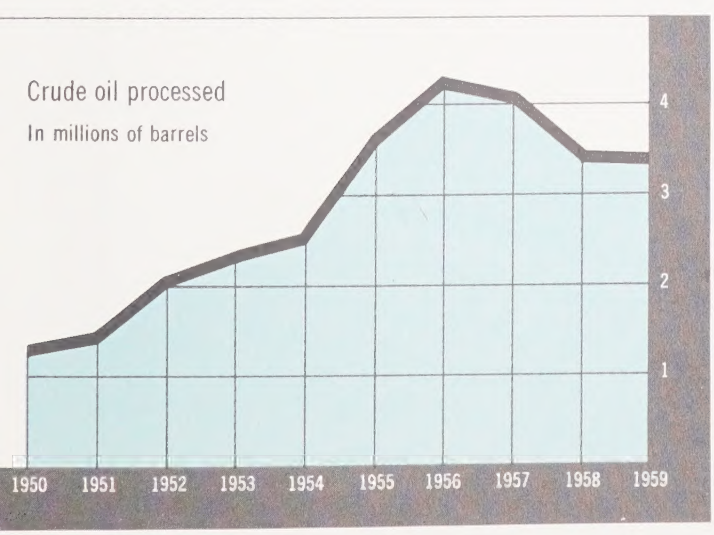
The Company's financial position remains strong. At the end of 1959, net working capital had increased 19% to $8,376,000, including $3,838,000 in cash and marketable securities. Arrangements have been made with our bank to provide $8,000,000 as needed for future requirements in the form of a $5,000,000 production loan and working capital loans of up to $3,000,000.

We acquired $2,000,000 in new funds during 1959 in the form of an unsecured loan. Principal and 5% interest payments are due in installments equal to one half the proceeds to the Company from sales of gas from certain properties in the Savanna Creek field. The funds acquired were placed in short term investments at favorable interest rates.

Growth expenditures for exploration and development drilling in 1959 were much lower than originally expected due to the continued uncertainties of gas export and crude oil markets. A comparison of growth expenditures for 1959 and 1958 is shown below.

GROWTH EXPENDITURES

	1959	*1958*
Exploration	$ 671,652	$ 900,102
Development drilling	381,942	1,007,583
Refinery improvements	179,120	366,862
Marketing facilities	383,286	914,106
	$1,616,000	$3,188,653



Our development expenditures will increase in 1960, particularly for construction of gathering and processing facilities associated with natural gas sales from Dick Lake and for development drilling at Savanna Creek if gas export from that field is approved.

Exploration expenditures were reduced in 1959 as we drilled fewer wildcat wells but continued to make farm-outs and dry hole contributions to other operators to assist in evaluating our lands. We expect to increase expenditures in 1960 by exploring recently acquired lands and by adding new acreage.

Refining expenditures were further reduced as facilities related to previous years' expansion programs have been completed. Expenditures for marketing expansion will be enlarged in 1960.

Changes in Alberta prorationing regulations already in effect, plus a normal increase in crude oil markets, are expected to increase income from our producing properties. Sales of natural gas from the Dick Lake field are scheduled to begin late in 1960. This, together with export of gas from the Savanna Creek field, when approved, will substantially increase the Company's cash flow.

Land

At the end of 1959, Canadian Husky held interests in 5,358,667 gross acres of leases, reservations and options equivalent to approximately 1,150,533 net acres. This is a reduction of about 25,000 net acres from our holdings at the end of 1958. Location of land held at the end of 1959 is shown below:

ACREAGE HOLDINGS

	Gross Acres	*Net Acres*
Alberta	675,974	221,906
Saskatchewan	297,081	159,050
Yukon and Northwest Territories	4,155,240	539,205
Alaska	230,372	230,372
Total	5,358,667	1,150,533

In addition, Canadian Husky owns over-riding royalty interests in 129,837 gross acres in Alberta, Saskatchewan and British Columbia.

Early in 1960, we acquired leases, reservations and options on an additional 533,308 gross acres or 240,547 net acres. Of these, 220,317 net acres are located in the central foothills and northern regions of Alberta. These areas currently are being actively explored by many companies.

Exploration and Development

Drilling and seismic equipment has been moved into the Yukon Territory and an exploratory well has started on the 3,850,000 acres which we farmed out to major oil companies in 1958. The first well is located on a block of 200,000 acres in the Eagle Plain basin. We retained a 7% net carried interest in the land and will participate in Northern exploration now under way without cost to the Company.

During 1959, another company, drilling in the Eagle Plain basin of the Yukon, discovered oil and gas in a 120-foot pay section at a depth of 4,370 feet. This well is located 16 miles from one block of our carried-interest land. It is the first significant discovery in Canada's North since the discovery of the Norman Wells field in 1920 and has stimulated new exploratory interest. Elsewhere in the North, we carried out a seismic survey on a 240,000 acre block of wholly-owned land in the Norman Wells area.

Canadian Husky has pooled part of its Alaska acreage with land held by others to form the Napatuk Creek Development Contract for the joint exploration of approximately 465,000 acres in the Bethel Basin area. A seismic program, carried out in the summer of 1959 with swamp buggies, revealed a number of interesting geologic features. A 1,200-foot stratigraphic test was drilled in 1959 and two deeper stratigraphic tests are scheduled for early 1960.

A deep test well is now being drilled by a major oil company on a portion of our holdings in the Brazeau area of the Alberta central foothills. That company will earn a 25% interest in 25,600 acres of land which is part of a 58,500 acre block in which we presently hold an 11% interest. Canadian Husky also purchased various interests in another 38,150 acres of Crown drilling reservations in the immediate area. Several significant discoveries have already been made in this general area.

A fourth gas-condensate well was completed in the unitized Dick Lake gas field in 1959. On test, this well flowed at a rate of 78.9 million cubic feet of gas per day through 4½ inch tubing. There are now four completed wells inside the unitized portion of the field, each with over 450 feet of pay zone and similar producing characteristics. Canadian Husky holds a 13.5% interest in the present unit and in 1,600 acres just outside the unitized area. We also hold 50% interests in three half sections immediately east of the unit.

Construction of a plant capable of processing 326 million cubic feet of gas daily was started early in 1960. The plant is designed to remove condensates and natural gas liquids from the gas. It will serve both the Dick Lake and Homeglen-Rimbey gas fields. Canadian Husky's share of the cost of gathering and processing facilities for Dick Lake will be approximately $750,000. Contracts with producers for the sale of gas from the Dick Lake field provide for minimum delivery of 73 million cubic feet daily to Trans-Canada Pipe Lines commencing November 1, 1960 on a take-or-pay basis. This quantity will approximately double by 1962.

Due to uncertainties connected with natural gas export, no further drilling was undertaken in the Savanna Creek

area in 1959. Canadian Husky has a 32.5% interest in seven Savanna Creek gas wells which have a combined open-flow potential of 185 million cubic feet daily. The north and south limits of the field are still undefined and we plan to carry out further exploration in 1960.

Our exploration program in the Lloydminster area was continued in 1959 with the drilling of another 18 slim holes of which 11 found extensions to existing fields and two discovered new fields. Crude oil reserves available to Canadian Husky's Lloydminster refinery have been greatly increased and economics improved by the slim hole program.

Drilling

The lack of adequate markets for crude oil and natural gas led us to curtail our drilling activity in 1959. A total of 29 gross wells, equivalent to 8.75 net wells, were drilled on lands in which Canadian Husky holds working interests. Another 10 wells were drilled on lands in which we retained over-riding royalties under farmout agreements. The 18 exploratory slim holes drilled for information at Lloydminster are not included in this total.

1959 DRILLING (gross wells)

	Total	*Oil*	*Gas*	*Abandoned*
Exploratory wells	10	3	–	7
Development wells	19	14	4	1
Total	29	17	4	8
Wells drilled by others on royalty interest land	10	5	2	3

One well drilling at the end of the year is not included in these figures.

Location of acreage interests

Production

After deducting royalties and partners' interests, Canadian Husky's net crude oil production for 1959 totalled 820,529 barrels, an increase of 1.8% over 1958 production. The total does not include production of 137,706 net barrels attributable to our carried interest in wells in the South Sturgeon Lake field. We expect these wells to be paid out by the end of 1961 and production revenues will thereafter contribute to Canadian Husky's earnings.

Our crude oil production from all areas other than Lloydminster increased by 10%. However, this increase was offset by a 6% decrease in Lloydminster production resulting from curtailed crude oil purchases by the Lloydminster refinery.

Prorated markets for Alberta crude oil remained depressed at less than 40% of the maximum provincial conservation allowable in 1959. Production from Canadian Husky's Alberta light oil producing properties was less than 15% of their conservation allowables due to the nature of the reserves. Under new regulations effective January 1, 1960, these properties are allowed a larger share of the current market and will receive an even greater share of any further market expansion.

Canadian Husky's net production of natural gas for 1959 was 1,159,502 thousand cubic feet. Potential production from our most important natural gas properties at Dick Lake and Savanna Creek is not yet being sold.

Refining

Crude oil processed by the three refineries in 1959 totalled 3,433,842 barrels, compared to 3,461,712 barrels in 1958. Throughput averaged 9,408 barrels per calendar day in 1959. The small decrease was due entirely to lower than normal deliveries of paving asphalt.

No major plant additions or process changes were made at the refineries in 1959. As a result, we were able to place greater emphasis on reducing costs, improving operating economics, and studying feasibility of future expansion.

Research and development resulted in continued improvements in quality and in new applications of Husky refined products. Products such as pipeline enamel, rubberized asphalt and industrial asphalts were improved in 1959.

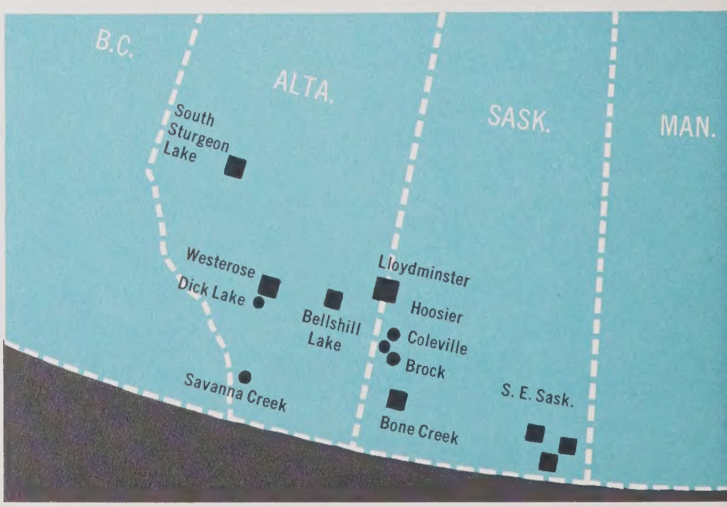
Marketing

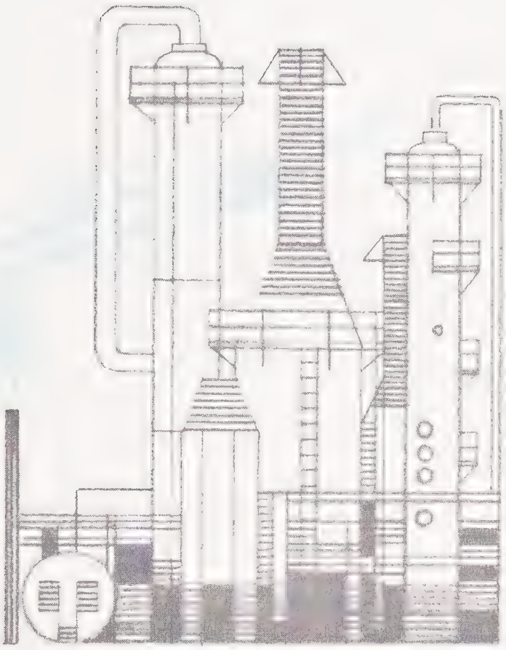
Total refinery and marketing sales revenues amounted to $14,124,141 in 1959, a decrease of 2.7% from the previous year. Volume of sales was approximately 8% lower than last year.

Two factors account for the decrease in revenues being considerably less than the decrease in sales volume. Increasing volumes of products, formerly sold as bunker fuel, are being diverted into other markets resulting in an improved dollar return per barrel of sales but a decreasing total volume sold. We are also placing greater emphasis on marketing gasolines and diesel fuels through Husky service stations and bulk plants. Sales through these outlets increased 10% in 1959.

Highway construction plans for 1959 were at a record high level in Western Canada but unfavourable weather conditions during the construction season made it impossible for paving crews to complete their schedules. Volumes of paving asphalt under contract could not be delivered and our asphalt sales did not set the new records expected.

Inability to complete the 1959 road building programs





Market area (in white) and refineries

created a large carry-over of construction to the spring of 1960. Canadian Husky is in a good position to supply the expected heavy demand during the early construction period of this year. In addition to the carry-over, new highway construction planned for 1960 indicates a large market for paving asphalt throughout the construction season.

The demand for improved all-weather highways continues to grow as Canada's economy expands. Farm-to-market roads, once little better than muddy trails, are rapidly being up-graded with asphalt surfacing to modern all-weather secondary highways. New roads to serve natural resources industries are being constructed in areas accessible in the past only by water or air transportation. The growing pace of home construction also creates new demands for street paving in cities and towns.

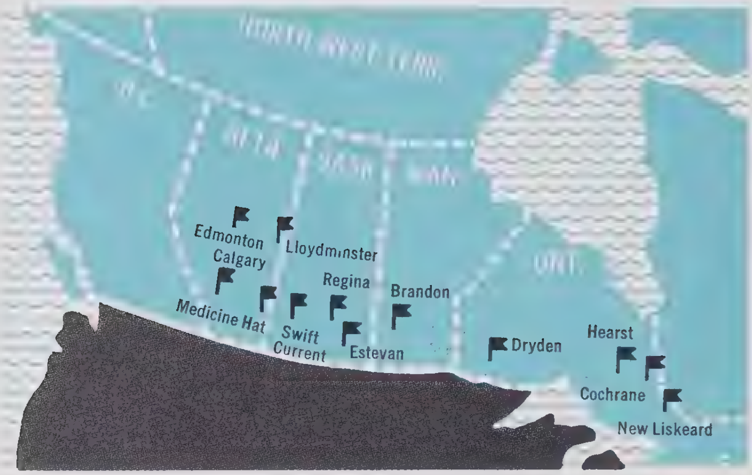
To better serve the many new asphalt markets, we have developed new sales promotion materials for use by contractors working in cities and towns. Our own literature, together with the excellent material supplied by the Asphalt Institute, is receiving wide circulation and assists in promoting asphalt for uses such as driveways, parking lots, tennis courts, swimming pools, sidewalks and curbing.

Canadian Husky also supports good roads programs with technical services to road builders and highway agencies. The Company is a leader in marketing asphalt in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

During 1959, we added 16 retail outlets to the chain of service stations and bulk plants marketing Husky brand products in the western provinces. Most of these were completed late in the year and did not contribute their full potential to 1959 sales. At the end of the year, there were 170 Husky sales outlets serving a market area from Northern Ontario to the Rocky Mountains.

Most Husky dealers are independent business men who

Principal areas of oil ■ and gas ● production



Husky travelcentres

Highlight of the year for Canadian Husky's fueling ship at the Lakehead was the servicing of Her Majesty's Royal yacht "Britannia".

A new trailer-borne Husky Service Clinic was inaugurated in 1959 to assist Husky dealers in better serving customers and in more profitable operations.

operate under various lease or mortgage arrangements with the Company. A new trailer-borne Husky Service Clinic was inaugurated in 1959 to assist them in more profitable operations by attracting new business, giving better service to customers and in selling the full line of Husky products. The mobile clinic takes instruction and product demonstrations direct to the dealer, his employees and his customers at his place of business.

A new line of Husky brand auto batteries, oil filters, antifreeze and other related items was introduced at our retail outlets in 1959. Initial sales have shown favorable public acceptance of the new product lines.

Canadian Husky's Travelcentres have filled a great need for service to travelers in our market area. Travelcentres are located at convenient driving intervals on principal highways from New Liskeard, Ontario to Calgary and Edmonton, Alberta. Each contains complete one-stop service facilities including Husky House restaurant, over-sized truck service bays, plus lounge, shower room and dormitory conveniences for truckers.

In 1959, telex communication equipment was installed at Travelcentres in the West as an added service to trucking companies and other travelers. We expect to extend this service to other points in 1960.

The Husky House restaurants have become an important adjunct to the marketing of petroleum products. They feature attractive meals carefully prepared under the Company's rigid standards of quality and cleanliness. Experience has shown that they are valuable both as restaurants and as an added attraction for customers who also purchase Husky petroleum products.

The *Husky 120*, our fueling ship serving Great Lakes shippers at the twin ports of Port Arthur and Fort William, continues to prove its worth. The highlight of 1959 for the ship was the fueling of Queen Elizabeth's Royal yacht *Britannia* and its escort destroyer.

The Company's policy of providing customers with highest quality petroleum products and courteous, efficient service has earned it a favorable position in Canada's highly competitive oil industry. Further expansion of our marketing territory and consolidation within the present area of our operations will continue.

The number of Husky employees averaged 416 in 1959, compared to 496 for the previous year. The total book assets of the Company are equivalent to $81,000 per employee.

New safety records were established in 1959 with the three refineries winning six national and provincial safety awards. Only one lost time accident occurred during the year, resulting in an accident frequency rate much better than the oil industry average.

Canadian Husky's common and preferred shares are owned by approximately 8,800 shareholders located throughout Canada, United States and several other countries. Although most shares are owned by individuals, investment institutions hold substantial amounts of the Company's outstanding securities.

Canadian Husky Oil Ltd. *and subsidiaries*

Consolidated Balance Sheet December 3

Assets

	1959	1958
CURRENT ASSETS:		
Cash	$ 3,246,786	$ 2,449,822
Government of Canada and other marketable securities—at cost including accrued interest (market value 1959, $580,975; 1958, $1,089,230)	590,865	1,092,451
Notes and accounts receivable, less allowance for doubtful accounts 1959, $203,751; 1958, $128,072	3,068,402	2,913,821
Inventories at lower of cost or replacement market	3,560,171	3,067,512
Prepaid expenses	281,336	193,005
Total current assets	10,747,560	9,716,611
OTHER ASSETS:		
Notes and contracts receivable, less amounts due within one year included in current assets above	1,187,071	1,524,656
Idle equipment at book value	127,092	105,759
Operating deposits, sundry investments and rental properties—net	243,993	290,670
	1,558,156	1,921,085
PETROLEUM AND NATURAL GAS PROPERTIES (Note 1):		
Oil and gas wells, including capped gas wells—at cost, except as stated in note 1, less accumulated depreciation and depletion 1959, $2,981,706; 1958, $2,472,411	11,969,590	12,221,348
Wells in progress—at cost	28,800	174,969
Undeveloped reservations and leases—at cost	1,961,024	2,054,363
	13,959,414	14,450,680
PROPERTY, PLANT AND EQUIPMENT (Note 3):		
Land—at cost	447,543	381,109
Buildings, plant, machinery and equipment—at cost, less accumulated depreciation 1959, $4,526,429; 1958, $3,584,916	6,401,735	6,781,923
Construction in progress—at cost	188,564	639,123
	7,037,842	7,802,155
Excess of investment carrying value over equity in subsidiary company, consolidated, at date of acquisition less amount amortized	49,544	63,368
	7,087,386	7,865,523
INTANGIBLES—organization expenses and trademarks, less amounts written off	3,689	3,689
GOODWILL	470,760	470,760
	$33,826,965	$34,428,348

The accompanying notes 1 to 6 are an integr

1959 (with comparative figures at December 31, 1958)

Liabilities

	1959	1958
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (including taxes other than income 1959, $134,102; 1958, $147,309)	$ 1,555,969	$ 1,659,693
Income taxes payable—estimated	—	92,193
Dividend payable	—	53,522
Current portion of long term debt	815,430	885,732
Total current liabilities	2,371,399	2,691,140
LONG TERM DEBT (Notes 2 and 3):		
Notes and contracts payable, less amounts due within one year, included in current liabilities 1959, $45,430; 1958, $44,732	37,235	81,665
Note payable and accrued interest—5%	2,025,205	—
Funded debt	9,510,000	10,350,000
	11,572,440	10,431,665
NOTE PAYABLE (Note 4)	3,000,000	3,000,000
STOCKHOLDERS' EQUITY (Notes 4 and 5):		
Six per cent (6%) cumulative redeemable preferred shares, par value $50 each; authorized 80,000 shares; issued and outstanding 71,363 shares	3,568,150	3,568,150
Common stock par value $1 per share; authorized 5,000,000 shares; issued and outstanding 1959, 3,056,834 shares; 1958, 3,056,533 shares	3,056,834	3,056,533
Other paid in capital	14,608,261	14,819,583
Deficit	(4,350,119)	(3,138,723)
	16,883,126	18,305,543
COMMITMENTS AND CONTINGENCIES (Note 6)		
	$33,826,965	$34,428,348

Approved on behalf of the Board:

GLENN E. NIELSON, *Director*

LAWRENCE W. LEE, *Director*

t of the consolidated financial statements.

Consolidated Statement of Earnings

Year ended December 31, 1959 (with comparative figures for 1958)

	1959	1958
INCOME:		
Net refinery and marketing sales	$14,124,141	$14,510,388
Other operating revenue	1,231,830	1,728,644
	15,355,971	16,239,032
Cost of sales and operating expenses, exclusive of expenses specifically set forth below	12,126,209	12,909,525
Selling, general and administrative expenses (including for 1959, officers' salaries, $226,650, directors' fees, $9,000 and legal fees $40,238)	1,707,929	1,798,480
	13,834,138	14,708,005
Net operating profit exclusive of depreciation and depletion	1,521,833	1,531,027
Other income—net	223,012	404,542
Net earnings before other charges	1,744,845	1,935,569
OTHER CHARGES:		
Lease abandonments, non-productive drilling and undeveloped lease expense	525,813	1,200,478
Land, exploration and geological department expense	169,099	186,207
Interest charges	624,848	571,185
	1,319,760	1,957,870
Earnings (loss) before depreciation and depletion	425,085	(22,301)
Depreciation	1,229,448	1,232,207
Depletion	418,523	628,040
	1,647,971	1,860,247
Net loss before the following credit	(1,222,886)	(1,882,548)
Reduction of liability for prior years' income taxes and interest thereon, of a subsidiary company	11,490	115,000
Net loss	$(1,211,396)	$(1,767,548)

Consolidated Statement of Surplus

Year ended December 31, 1959

	Other Paid in Capital	Deficit	Total
BALANCE AT BEGINNING OF YEAR	$14,819,583	$(3,138,723)	$11,680,860
Add:			
Excess of consideration received over par value of 301 common shares issued (Note 4)	2,766	—	2,766
	14,822,349	(3,138,723)	11,683,626
Deduct:			
Net loss for the year	—	1,211,396	1,211,396
Dividends paid on 6% cumulative redeemable preferred shares	214,088	—	214,088
	214,088	1,211,396	1,425,484
BALANCE AT END OF YEAR	$14,608,261	$(4,350,119)	$10,258,142

The accompanying notes 1 to 6 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 1959

1. PETROLEUM AND NATURAL GAS PROPERTIES:

Certain petroleum and natural gas properties located in the Lloydminster area and carried at a net value of $4,531,880 as at January 1, 1958, were revalued and written down to $226,918 at that date by reason of economic conditions affecting the production and sale of low gravity crude oil. The revised values accorded to the properties were determined by the company's engineering and production staff.

2. NOTE PAYABLE:

The note payable bearing interest at 5% per annum is a promissory note covering a cash advance. The note provides for principal and interest payments to be made equal to one-half the amounts received for gas sales from certain specified shut-in properties in the Savanna Creek gas field.

3. FUNDED DEBT (HUSKY OIL & REFINING LTD.):

	December 31 1959	December 31 1958
3¾% First Mortgage Serial Bonds Series A maturing in the amount of $650,000 on December 15, 1960 and in the amount of $750,000 on December 15, 1961	$ 1,400,000	$ 2,050,000
5% Sinking Fund Debentures Series A maturing December 15, 1969	5,520,000	5,640,000
5½% Sinking Fund Debentures Series B maturing May 1, 1973	3,360,000	3,500,000
	10,280,000	11,190,000
Less amount due within one year included in current liabilities (1959, net of $70,000 current sinking fund requirement retired in advance.)	770,000	840,000
	$ 9,510,000	$10,350,000

Property specifically mortgaged as security for the funded debt includes real and immovable property presently owned by Husky Oil & Refining Ltd. (excluding petroleum properties and residential properties) and shares in the capital stock of its subsidiary companies having a book value of $5,305,272 at December 31, 1959.

4. CAPITAL:

The following common shares were issued during the year ended December 31, 1959:

NUMBER OF SHARES	CONSIDERATION	CREDITED TO COMMON SHARES	CREDITED TO OTHER PAID IN CAPITAL
61	Cash (issued to employees under incentive share purchase plan)	$ 61	$ 366
240	Cash (issued through the exercise of warrants)	240	2,400
301		$ 301	$2,766

The Company has entered into agreements with certain officers and employees whereby they have the opportunity to purchase common shares of the company at fixed prices ranging from $6.50 to $11.75 per share, the price per share being the quoted price of the shares at the date of the agreement or, in certain cases, of a predecessor agreement. The company has reserved 135,557 common shares for sale to employees. The shares become available for purchase only at specific times. At

December 31, 1959, there were 109,900 shares under option. These shares become exercisable during the years 1960 to 1969.

At December 31, 1959, there were stock purchase warrants outstanding, giving to the holders thereof the right to purchase 307,660 shares, of common stock of the company. These warrants are exercisable as follows:

270,160 at $11 per share up to and including December 14, 1960 and thereafter at $14 per share up to and including December 14, 1964.

37,500 at $24 per share up to and including August 1, 1967.

The agreement covering the note payable in the amount of $3,000,000 provides that money advanced shall be payable on demand without interest, except that it may be repaid in common shares of Canadian Husky Oil Ltd. on the basis of $17 per share at the election of either party. It would require 176,470 of the unissued shares of the company to repay the advance, and such shares have been reserved for this purpose.

5. RESTRICTIONS ON DIVIDENDS:

The conditions attached to the preferred shares of Canadian Husky Oil Ltd. provide for certain restrictions on the payment of dividends on its common shares. Under these restrictions none of the other paid in capital is available for dividends on the common shares as of December 31, 1959.

6. COMMITMENTS AND CONTINGENCIES:

Husky Oil & Refining Ltd. has outstanding certain long term lease agreements, in respect to certain marketing assets, with Husky Leasebacks Limited. The annual rental commitment under the lease agreements is approximately $219,460 per annum. The leases may be terminated under certain conditions. Husky Oil & Refining Ltd. has an option to purchase all of the outstanding shares of Husky Leasebacks Limited at any time during the terms of the leases for a consideration of $2,000.

Husky Oil & Refining Ltd. leased certain office premises on October 1, 1954 for a period of 10 years at an annual rental of $93,850.

The company is committed under the terms of a unit agreement to pay its proportionate share of the cost of construction in 1960 of gas gathering and processing facilities for the Dick Lake (Westerose South) gas condensate field. It is estimated that the cost to Canadian Husky Oil Ltd. and a subsidiary company will be approximately $750,000.

Certain commitments or contingencies exist which may involve costs or losses arising in the ordinary course of business, the amounts of which, however, are not considered to be significant.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Husky Oil Ltd. and subsidiaries as of December 31, 1959 and the consolidated statements of earnings and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canadian Husky Oil Ltd. and subsidiaries, consolidated, at December 31, 1959 and the results of their operations for the year ended on that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 26, 1960

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Construction on the Trans-Canada highway is nearing completion. This section in British Columbia is typical of the smooth all-weather highway system that serves Canada's economy.

Canadian Husky Oil Ltd. *and subsidiaries*

Ten Year Financial and Operating Summary

Financial

	1959	1958
Gross operating income	$15,355,971	$16,239,032
Costs, operating and general expenses	13,834,138	14,708,005
	1,521,833	1,531,027
Other income	234,502	519,542
	1,756,335	2,050,569
Other charges		
Depreciation and depletion	1,647,971	1,860,247
Exploration expense and overhead	694,912	1,386,685
Interest charges	624,848	571,185
Net earnings (loss)	(1,211,396)	(1,767,548)
Net working capital	8,376,161	7,025,471
Long term debt	14,572,440	13,431,665
Preferred shares outstanding, at par value	3,568,150	3,568,150
Preferred Share dividends	214,088	214,089
Common shares outstanding, at par value $1 per share	3,056,834	3,056,533

Operating

	1959	1958
Net crude oil production (barrels)	820,529	806,298
Average barrels per day	2,248	2,209
Natural gas production (MCF)	1,159,502	991,305
Average MCF per day	3,177	2,716
Crude oil processed (barrels)	3,433,842	3,461,712
Average barrels per day	9,408	9,484
Net refinery and marketing sales (barrels)	3,327,910	3,621,460
Marketing outlets at year end	170	154
Number of wells drilled—gross (net)	29 (8.7)	50 (15.8)
Exploratory	10 (5.6)	17 (4.7)
Development	19 (3.1)	33 (11.2)
Successful wells completed—gross (net)		
Exploratory	3 (3.0)	6 (1.7)
Development	18 (3.1)	30 (10.4)

1957	1956	1955	1954	1953	1952	1951	1950
$18,982,165	$16,886,340	$13,668,452	$ 9,725,017	$ 8,007,351	$ 8,463,941	$ 4,213,479	$ 3,527,978
15,820,870	13,973,449	11,137,804	7,303,373	5,865,425	5,879,792	3,343,334	2,700,791
3,161,295	2,912,891	2,530,648	2,421,644	2,141,926	2,584,149	870,145	827,187
202,807	98,913	219,503	103,280	83,609	60,065	39,587	13,173
3,364,102	3,011,804	2,750,151	2,524,924	2,225,535	2,644,214	909,732	840,360
2,021,876	1,838,113	1,676,157	1,122,598	998,052	826,338	287,261	165,265
882,734	675,698	692,294	725,188	539,250	347,061	258,070	211,617
590,668	478,463	373,502	190,500	164,258	55,945	113,183	121,287
(131,176)	19,530	8,198	486,638	523,975	1,414,870	251,218	342,191
7,501,754	3,591,088	4,172,358	8,266,066	3,389,372	4,730,478	3,284,597	1,179,961
12,233,066	9,881,360	9,443,351	10,075,105	2,854,224	3,091,586	2,035,234	2,138,978
3,568,150	3,568,150	3,568,150	3,503,950	165,800	—	—	—
214,089	214,089	212,426	111,275	2,518	—	—	—
2,614,390	1,971,342	1,959,017	1,958,357	1,957,857	1,957,857	1,461,175	1,090,846
937,485	928,421	904,278	575,350	481,727	492,792	137,899	68,804
2,568	2,544	2,477	1,576	1,320	1,350	378	188
807,066	929,059	1,070,252	1,124,137	705,947	340,969	19,686	—
2,211	2,545	2,932	3,080	1,934	934	54	—
4,060,887	4,240,948	3,689,958	2,651,812	2,325,874	2,098,243	1,479,539	1,279,155
11,126	11,619	10,109	7,265	6,372	5,749	4,053	3,504
3,825,330	4,121,427	3,643,538	2,716,328	2,405,692	2,153,801	1,377,869	1,309,428
128	111	67	28	8	—	—	—
77 (28.1)	94 (24.1)	98 (33.0)	75 (18.1)	56 (24.9)	53 (17.6)	28 (10.5)	22 (7.7)
36 (13.6)	46 (16.1)	60 (17.5)	44 (13.3)	36 (17.7)	34 (11.0)	20 (5.7)	19 (5.6)
41 (14.5)	48 (8.0)	38 (15.5)	31 (4.7)	20 (7.2)	19 (6.6)	8 (4.8)	3 (2.1)
10 (4.1)	15 (4.8)	11 (2.1)	8 (3.2)	5 (1.9)	6 (1.4)	3 (.7)	2 (1.1)
31 (10.5)	40 (6.4)	30 (13.9)	26 (3.9)	19 (6.9)	14 (4.6)	4 (3.7)	1 (.1)

Canadian HUSKY Oil Ltd.

Board of Directors

George S. Buchanan, *Cody, Wyoming*
Paul J. Guthrie, *Edmonton, Alberta*
R. L. Hunter, *Montreal, Quebec*
K. M. Johnston, *Calgary, Alberta**
Lawrence W. Lee, *Calgary, Alberta*
M. A. MacPherson, Sr., q.c., *Regina, Saskatchewan*
F. R. Matthews, *Calgary, Alberta*
J. K. McCausland, *Toronto, Ontario*
Glenn E. Nielson, *Cody, Wyoming*
P. R. Payn, *Como, Quebec*
Lloyd Taggart, *Cody, Wyoming*
* Succeeded J. W. Millar, Edmonton, Alberta, in March, 1960.

Officers

Glenn E. Nielson, *President*
Lawrence W. Lee, *Executive Vice-President and General Manager*
L. J. Campbell, *Vice-President, Refining*
Arthur C. Knight, *Vice-President, Marketing*
Arnold Larsen, *Vice-President, Finance*
John R. McNulty, *Vice-President, Industrial Relations*
W. E. Powell, *Vice-President, Exploration and Production*
R. G. P. MacLellan, *Secretary*
D. R. Hagerman, *Treasurer*
W. F. McWhinney, *Comptroller*
J. L. Smith, *Assistant Secretary*
J. D. Winzenried, *Assistant Secretary*

Transfer Agents and Registrars

Common Shares—*Listed on the Toronto and Montreal Stock Exchanges*

Montreal Trust Company, *Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver, Winnipeg*

The Chase Manhattan Bank, *New York*

Preferred Shares

Montreal Trust Company, *Calgary*

Canadian HUSKY Oil Ltd.

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FOR IMMEDIATE RELEASE
April 14, 1959

Calgary, Alberta --- Definite signs of improvement for Canada's oil industry in 1959 were cited by Glenn E. Nielson, president of Canadian Husky Oil Ltd. in the company's annual report. In his letter to shareholders, Mr. Nielson said current problems of the industry are not permanent but should be regarded as "a pause of consolidation" in the development of the nation's economy.

He added that 1959 improvements probably will not return the industry to its pre-1958 level of activity. Government action on pending matters of gas export and oil imports could radically change the rate of recovery, he said.

The report called for use of western Canadian crude oil in supplying the total Canadian petroleum demand to restore vigor to the industry. One-half of domestic demand is currently being supplied by imported crude oil and refined products while western producers are able to sell only about one-half of the crude oil they can produce.

In dealing with natural gas, Mr. Nielson said experts agree that Canada's proven reserves are "far greater than the forseeable domestic demand" and markets for the surplus are readily available in the United States.

In summarizing Canadian Husky's 1958 operations, the report said restricted crude oil and natural gas markets plus severe price competition resulting from an industry wide over-supply of refined products had an adverse effect on the company's earnings. However, they have not altered the company's prospects for continued growth.

Canadian Husky's gross operating income for 1958 was $16,079,000 compared to a record $18,951,000 in 1957. Net earnings before depreciation, depletion and other charges were $1,936,000 compared to $3,364,000 in 1957. The company showed $1,768,000 net loss after all deductions, including substantial non-

more

recurring writeoffs.

The report showed a strong financial position for the company, with $7,025,000 in net working capital at the end of the year. An additional $11,887,000 was available from outside sources for future needs.

Crude oil throughput at the three Canadian Husky refineries averaged 9,484 barrels daily in 1958 compared to 11,126 barrels in 1957. The decrease resulted from a 22 per cent decline in sales of bunker fuel. The company showed gains in sales of other products.

Sales revenues were $14,510,000 for 1958 compared to $16,578,000 in 1957. Most of the profit decrease came from lower prices received for refined products sold. The company had 154 marketing outlets at the end of 1958, an increase of 26 over 1957.

Net crude oil production for 1958 was 806,298 barrels after royalties, down 14 per cent from 1957 due to restricted markets for Alberta crude oil. Lower market allowables reduced Canadian Husky's crude oil production to 18 per cent of potential in Alberta. The company's production was curtailed to a greater extent than the industry average because its large reserves in highly productive reef fields were allowed to produce only a small fraction of their maximum permissible rates.

Net production of natural gas was 991,305,000 cubic feet, a gain over 1957 but still only seven per cent of the company's potential.

Net proceeds from oil and gas, after deducting production costs, were $928,585. If all the company's wells could have produced at maximum permissible rates, the proceeds would have been seven times this amount.

The company reported signing a contract with Trans-Canada Pipe Lines for the sale of 70,000,000 cubic feet of gas daily from the Dick Lake field beginning in 1960. Trans-Canada will also take the full productive capacity of the field if present contract for the remainder of the gas based on export of gas from Canada is not approved. Canadian Husky has a 13.5 per cent interest in

the field.

Net land holdings were 1,176,000 acres following the farmout during 1958 of 3,850,000 acres in the Yukon and Northwest Territories. Canadian Husky retains a seven per cent net carried interest in the Northern land and will participate in exploring the area at no cost. The company also acquired new acreage in the Norman Wells area and Alaska.

- 30 -

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Net land holdings were 1,176,000 acres following the farmout during 1958 of 3,350,000 acres in the Yukon and Northwest Territories. Canadian Husky retains a seven per cent net carried interest in the Northern land and will participate in exploring the area at no cost. The company also acquired new acreage in the Norman Wells area and Alaska.